



TE TAI ŌHANGA
THE TREASURY

AC-4-5-24

17 May 2020

Mr Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario MSV 3H2
CANADA

Dear Ross

REQUEST FOR INFORMATION (RFI) – Concessionary Leases and Other Arrangements Similar to Leases

Thank you for the opportunity to respond to the IPSASB's RFI.

The New Zealand Treasury is responsible for the New Zealand Government's accounting policies that comply with NZ GAAP for the public sector based on IPSAS and for preparing the consolidated Financial Statements of the Government of New Zealand (i.e. the whole of government accounts).

We have responded to the RFI using the following four sectors:

- New Zealand's rail network – KiwiRail (Annex One)
- Social housing (Annex Two)
- School property portfolio management - Ministry of Education (Annex Three)
- New Zealand's conservation estate - Department of Conservation (Annex Four)

There are many other sectors and examples that we could have used in this response, but we think these four sectors provide a good cross section of concessionary leases and other arrangements similar to leases for your consideration in phase two of the IPSASB's lease project.

IPSASB topic of interest	Response
(a) Concessionary leases	Annex One to Four (inclusive)
(b) Leases for zero or nominal consideration	Annex One and Three
(c) Access rights (or rights of access to property and/or land)	Annex One and Four

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(d) Arrangements allowing right-of-use	Annex One, Three and Four
(e) Social housing rental arrangements	Annex Two
(f) Shared properties with or without a lease-arrangement in place	Annex Three

In our response, we want to illustrate the variety of government-owned agencies that work closely together, on behalf of the Government, to deliver public services to tax payers and citizens. As a result of these multiple agency structures, there are a significant number of lease-like arrangements under the common control of the government, including concessionary leases.

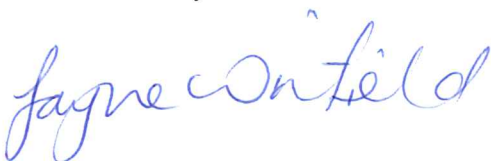
A major issue in accounting for these common control leases under IFRS 16 rules would be the determination of the contract boundary and term. Practically, many of the leases described in Annex One to Four would be considered permanent until or unless there is a change in government policy settings. Even if a period is stipulated in a lease contract agreement, the expectation of both parties may be that the lease will be rolled over. Policy settings are however continuously being changed by governments to better achieve desired outcomes, leading to potential changes in lease boundaries, albeit some arrangements beneficial to both parties may last decades.

As we noted in our response to ED75, we believe the costs of adopting an IFRS 16-aligned standard for leases are much higher than usual and have observed significant costs being incurred by private sector in implementing IFRS 16. We are very concerned that the cost of implementing lease accounting under IFRS 16 for concessionary leases and other arrangements similar to leases will be significantly burdensome in the public sector due to the large number of leases between government-owned entities with special terms and conditions, where arrangements are often an exchange of complementary benefits to achieve a particular public service or outcome, rather than for cash.

We encourage the IPSASB to carefully consider all potential costs that could be incurred for any new accounting proposals for concessionary lease transactions that occur under the common control of the government entity, and whether the costs of new accounting would outweigh the benefits to users of financial statements. Cost and user needs will need to be assessed carefully at both the individual agency level (which are required to prepare audited financial statements in accordance with NZ GAAP) as well as the whole of government financial statements, particularly when a complex leasing arrangement between two government-owned agencies are eliminated in the whole of government accounts.

We trust you will find these responses useful in your further deliberations. If you have any queries regarding Treasury's comments, please contact Ken Warren or Angela Ryan by email to ken.warren@treasury.govt.nz or angela.ryan@treasury.govt.nz

Yours sincerely



Jayne Winfield
Manager, Fiscal Reporting

New Zealand's rail network - KiwiRail

KiwiRail is a New Zealand government-owned corporation, who own and operate New Zealand's rail transportation network and between-island ferry service. KiwiRail employs approximately 3,700 people. They operate six business divisions:

- Freight - Provides rail freight services and locomotives for passenger services.
- Interislander - Operates the Cook Strait ferry passenger and freight services
- Tourism - Operates long-distance passenger train journeys including the Coastal Pacific, TranzAlpine, Northern Explorer and Capital Connection services.
- Property - Manages over 1,400 property assets and 8,000 third-party interests on its land.
- Rolling Stock - Management of the company's locomotive and wagon fleet, and management of locomotive purchasing and maintenance.

KiwiRail operates and maintains around 3,700km of track across New Zealand, including 3,100 signals 1,500 public level crossings (and around a further 1,500 level crossings on private land), 106 tunnels and 1,344 bridges. KiwiRail manages more than 17,800 hectares of land, including the railway corridor and owns more than 1,350 buildings. They also manage 10,000+ leases, licences and grants.

As lessee

New Zealand Rail Corporation

New Zealand Rail Corporation ("NZRC") has, along with the Crown, granted a long-term lease to KiwiRail for nominal consideration, under which KiwiRail can enjoy the commercial benefit of the rail corridor land. KiwiRail has primary responsibility for administering the land. Under the lease KiwiRail can undertake many activities in relation to the land without requiring the consent or involvement of NZRC. It is also able to sub-lease railway land for periods of time within the term of the lease. KiwiRail also carries the legal risks associated with use of the land. As a result, KiwiRail has comprehensive rights to enjoy the land and primary responsibility for managing the land. The NZRC therefore has a minimal ongoing role in managing the land (as the Crown's agent). The Core Lease gives KiwiRail a secure leasehold tenure over the railway land until the end of 2070 under current policy settings.

The NZRC does not have any employees. The NZRC has entered into a Management Agreement under which KiwiRail provides corporate and administrative services to the Corporation for a nominal charge. The NZRC is required by the NZRC Act to have a General Manager. This role is usually performed by an employee of KiwiRail at no cost to NZRC.

Accounting

NZRC recognises the land asset on its balance sheet, initially at cost and subsequently at fair value. Rail corridor land is valued based on adjacent use ('across the fence'), as an approximation of fair value.

KiwiRail does not recognise any asset in respect of corridor land on its balance sheet. Any nominal payments to NZRC are expensed when incurred.

Both KiwiRail and NZRC are 100% owned by the Government and are therefore consolidated on a line by line basis into the Financial Statements of the Government of New Zealand. Any transactions between KiwiRail and NZRC are eliminated on consolidation (subject to materiality).

KiwiRail's access to private property

KiwiRail has access agreements and easements with private individuals to use the individual's private property to access the rail line for maintenance. For example, the rail line and corridor may run through private farm land. A formal agreement between the landowner and KiwiRail exists. The agreement may include an obligation that KiwiRail pay a share in the costs of maintenance of a track or road on the private land which is used both by KiwiRail to access the rail line and by the landowner for private purposes. The landowner usually bills KiwiRail with a share of the landowner's cost. There may also be an annual nominal fee e.g. \$1 payable by KiwiRail per year for access, but in practice, because the nominal amount is so small, payment is often waived. Access for KiwiRail may not be limited to the track to the rail line, access may be available to a full legal parcel of property on which the track or road exists.

While this example involves an agreement with a private individual, there are similar access agreements between KiwiRail and other government-owned entities who own land in which the rail corridor passes through e.g. Conservation estate managed by the Department of Conservation. This would result in inter-entity transactions that are eliminated for the consolidated Financial Statements of the Government (subject to materiality).

Accounting

KiwiRail expenses for access rights and easements when incurred are recognised in the financial statement of performance in the period to which they relate.

As lessor

KiwiRail is one of New Zealand's largest landowners and a significant landlord with around 18,000ha of land, and 1500 buildings and a property portfolio worth \$3.6 billion.

As a landlord, a landowner and a protector of land for future generations, kaitiakitanga¹ is important to KiwiRail. KiwiRail has a number of ways to help those who live alongside the rail corridor.

KiwiRail manage 10,000+ leases, licences and grants, under the following main agreement types:

Leases – Commercial occupiers and freight partners lease land and buildings from KiwiRail to enable them to access rail services, and use KiwiRail land for their own business needs. These tend to be agreed on commercial terms.

Licence to Occupy – Rural and residential occupiers living next to the railway corridor can apply to lease rail land for their own use. The land must be surplus to KiwiRail's current operational network requirements and be safe to occupy. For safety reasons, fencing and

¹ Kaitiakitanga means guardianship, protection, preservation or sheltering. It is a way of managing the environment, based on the traditional Māori world view.

separation from the corridor is essential. All agreements to occupy rail land must be in writing and the most common way to do this is by entering into a Licence to Occupy.

Typical types of licenses to occupy are commercial and industrial, grazing and cropping, beautification (e.g. mowing lawns) and cycleways and pathways.

A common example in New Zealand is where a farmer leases a thin strip of land between the railway line and the farm boundary. The lease fee annually can vary from historical peppercorn amounts to more substantial fees.

Access rights for private individuals to cross the railway line - A typical example is where a farmer owns two fields on either side of the railway line (sometimes the only access to a field on a farm is over the rail line). KiwiRail may charge an annual fee to the farmer for the right to cross the line (including stock and machinery). Those fees may be nominal or more substantial depending on the terms of the agreement. In some instances the access rights over the line were agreed historically when the rail lines were first constructed and there is no written or formal agreement and no payments involved. KiwiRail may have constructed a tunnel under the lines to make it safer for farm stock and machinery to move from one side to the other, or there may be a crossing over the line with safety signage erected.

Grant of Right – The Grant sets out the responsibilities of each party and the location along the railway line where the Grantee is permitted to have and maintain an asset or structure in railway land. These rights are granted under Section 35 NZ Railways Corporation Act 1981, an Act that empowers KiwiRail (Grantor) to grant rights over, or under, any railway land subject to conditions and payments of fee that KiwiRail think fit.

Grants are typically required for when a person or organisation (grantee) wants to replace, upgrade, maintain or install one of the following in railway-owned land: pipes, cables, bridges or underpasses, power and communications, water races and open drains, level crossings, rights of way and pathways, and other utilities and services like billboards and advertising.

The application fee depends on the asset involved. An annual fee is also charged and this is set at a minimum of \$350 plus GST, paid annually, half-yearly or quarterly.

Accounting

The property lease portfolio is made up of a large number of leases with varying terms.

Leases in which KiwiRail does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. The majority of KiwiRail leases are treated as operating leases.

Assets leased to third parties under operating leases are included in property, plant and equipment and investment properties in the Statement of Financial Position. Property, plant and equipment is depreciated over its expected useful life on a basis consistent with similar owned property, plant and equipment and investment property is revalued on an annual basis.

Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term and is included in revenue in the statement of financial performance due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Social housing

As lessor

The central government provides subsidised rental housing through state-owned housing managed mainly by the Crown entity², Kāinga Ora (Housing New Zealand) and also through around 56 community housing organisations (outside of the government) such as churches, iwi and housing trusts.

Kāinga Ora social housing stock numbers at 30 June 2020:

Managed housing stock

Managed Housing Stock	Kāinga Ora Housing	State Housing	Community Group Housing	Emergency/ Transitional Housing
Opening stock 1 July 2019	65,256	63,084	1,500	672
Additions 2019/20	1,848	1,561	42	245
Disposals 2019/20	862	855	7	0
Adjustments net*	11	21	-5	-5
Closing balance 30 June 2020	66,253	63,811	1,530	912

* Net increase in state housing: 727 (2018/19: 1,223).

** Adjustments consist of property movements into and out of our stock categories.

The Government also provides some social housing through the Tāmaki Regeneration Company's (TRC). This company is a Crown entity, but is jointly owned by two shareholders, the New Zealand Government and Auckland Council, a local council. The Tāmaki Regeneration Company is mandated to lead an urban regeneration programme in Tāmaki (located in New Zealand's largest city, Auckland). This redevelopment programme will see 2,500 of the existing state houses replaced with at least 7,500 state, affordable, KiwiBuild, and private market houses over the next 20 years. The accounting policies and treatment adopted TRC are similar to those of Kāinga Ora.

Local councils in New Zealand also provide a range of rental housing, some of which they subsidise, but this is separate from central government's subsidised rental housing system. Local councils are not entities controlled by central government for financial reporting purposes, and therefore, are not consolidated into the Financial Statements of the Government of New Zealand.

The Ministry of Social Development (MSD) assesses whether people qualify for subsidised state or community housing. MSD is the government ministry in New Zealand that deals with benefits and other forms of income support. To qualify for government-subsidised social

² A Crown entity is an organisation that forms part of New Zealand's state sector established under the Crown Entities Act 2004, a unique umbrella governance and accountability statute. The Crown Entities Act is based on the corporate model where the governance of the organisation is split from the management of the organisation. Ministers of the Crown are required to "oversee and manage" the Crown's interests in the Crown entities within their portfolio. The board of the Crown entity has the key role in ensuring the entity is achieving results within budget. This is done by a monitoring department on behalf of the minister unless other arrangements for monitoring are made. Crown entities must prepare audited financial statements in compliance with NZ GAAP. They are consolidated into the Financial Statements of the Government of New Zealand.

housing from Kāinga Ora or a community housing provider, a New Zealand citizen or permanent resident must have an income and assets below a certain dollar threshold and have a high need for social housing.

If a citizen agrees to rent a particular social house, Kāinga Ora will draw up a tenancy agreement to be signed by both parties. The tenancy agreement is a legal contract between the tenant and the landlord. The tenant's landlord will be either Kāinga Ora, Tāmaki or a relevant community housing provider. Kāinga Ora let the Ministry of Social Development know that a tenant is taking the property, so MSD can work out what the tenant's rent will be.

The amount of rent will depend on how much the tenant's household earns. If the household's income is below a certain level, the tenant may qualify for a lower level of rent, called *income-related rent* where the government pays the difference between what the tenant pays (generally based on 25% of the tenant's net income) and the normal market rent rate.

The amount of rent a tenant pays is reviewed once a year by the MSD.

If a tenant of social housing also receives a main government benefit (e.g. jobseeker or sole parent support, New Zealand Superannuation or Veteran's pension), MSD will organise payment of the tenant's rent directly to the landlord and deduct the equivalent amount from the tenant's benefit payment. Otherwise, the tenant organises payment of the rent directly to the landlord.

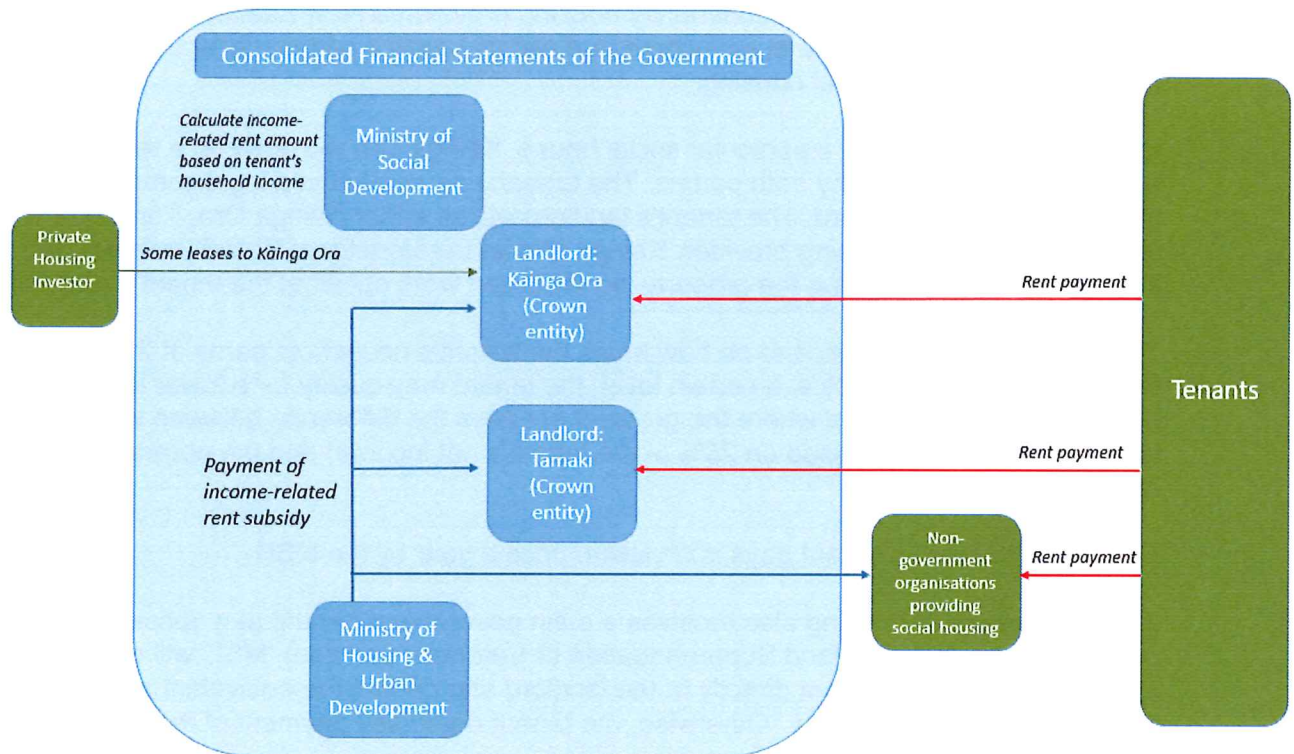
There are two kinds of tenancy agreements:

- Indefinite ("periodic") tenancies – A "periodic tenancy" is one that just keeps going until either the tenant or the landlord gives notice to the other that they want the tenancy to end. There's no fixed end date. If a tenancy agreement says nothing at all about when it will end, it's a periodic tenancy.
- Fixed-term tenancies – A fixed-term tenancy lasts for a set time, like six months or one year. It has a start date and an end date recorded in the agreement.

A fixed-term tenancy automatically becomes an indefinite (periodic) tenancy when the end date is reached, unless the tenant gives notice to the landlord saying they don't want the tenancy to continue (this has to be done 28 days before the fixed-term ends) or unless the tenant and landlord agree on something else, like another fixed-term tenancy.

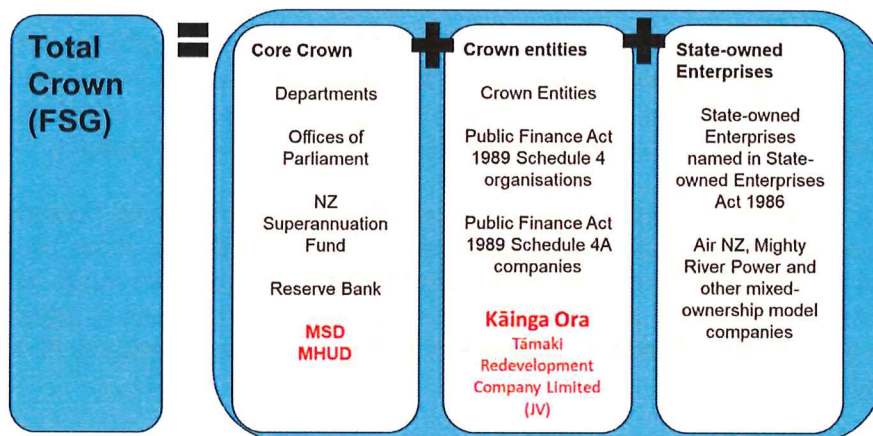
The Ministry of Housing and Urban Development (MHUD) pays to social housing landlords the difference between the tenant's rent payment and the market rent of the property. The majority of this subsidy payment is an inter-government entity payment made to Kāinga Ora and Tāmaki, but the subsidy is also paid to around 56 community housing organisations outside of the government. The MHUD payment to social housing landlords is called an *income-related rent subsidy*.

The figure below illustrates entities involved in delivery social housing:



Accounting for social housing

There are three segments that make up the consolidated Financial Statements of the Government of New Zealand. The two ministries discussed above, MSD and MHUD, are part of the core Crown segment, while Kāinga Ora and Tāmaki Redevelopment Company Limited are part of the Crown entity segment:



Kāinga Ora

Social housing property

Freehold land and rental properties in the social housing portfolio are initially recognised on Kāinga Ora's balance sheet at cost and subsequently fair valued in accordance with PBE IPSAS 17 *Property, Plant and Equipment*.

The primary purpose of owning these assets is to meet social housing need. The houses are therefore classified as property, plant and equipment (rather than investment property). Under the accounting policy, the most relevant measure of the operating capacity or financial position of the housing stock is a measure of what it would cost the Crown to replace it measured by current market prices. However, to the extent the Crown would not replace the housing stock, or considers the housing stock to be surplus, the most relevant measure is the expected sale proceeds, best measured by market prices.

Depreciation is calculated on a straight-line basis over the estimated useful life of buildings and their components, including chattels

Rent revenue

Both Income-related rental revenue received from tenants, and income-related rent subsidies received from the Crown (MHUD), are classified as non-exchange transactions and recognised as revenue on a straight-line basis over the term of the lease. Tenants pay rent fortnightly in advance.

Ministry of Social Development

The gross amount for the jobseeker or sole parent support and for New Zealand superannuation or veteran's pension are recorded as benefit expenses in the Ministry's schedule of revenue and expenses. The amount deducted from those benefits on behalf of the tenant and paid directly to the social housing landlord is considered as a transaction on behalf of the tenant, not an expense of the Ministry.

Ministry of Housing and Urban Development

Income-related rent subsidy payment to all social housing landlords is recorded as an expense when incurred in the Ministry's schedule of revenue and expenses.

Financial Statements of the Government of New Zealand

The income-related rent subsidy payment from the Ministry of Housing and Urban Development to Crown entities, Kāinga Ora and Tāmaki are inter-entity transactions and are therefore, eliminated on consolidation.

After elimination, the Financial Statements of the Government reflects:

- Freehold land and rental properties in the social housing portfolio recorded as part of property, plant and equipment in the balance sheet (initially recognised at cost and subsequently measured at fair value)

- In the Statement of Financial Performance
 - Income-related rent revenue from tenants (generally 25% of the tenant's income)
 - Depreciation of rental property buildings and chattels
 - Repairs of rental properties (that cannot be capitalised)
 - Rent expenses for social houses leased from private investors (Kāinga Ora as lessee, refer below)
 - An expense for the income-related rent subsidy paid to social housing landlords outside of the government.

As lessee

The majority of state housing properties managed by Kāinga Ora are owned by the Government, but some social houses (in areas where demand for affordable rental housing is high) are leased from a range of private property investors, from individual residential investors to larger property developers. Some emergency housing is secured through contracts with private motels.

Accounting

Social houses leased from private investors are accounted for under PBE IPSAS 13 *Leases*, and are classified as operating leases. In Kāinga Ora's statement of financial performance, operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Annex Three

School property portfolio management - Ministry of Education

The Ministry of Education is the reporting entity that has responsibility for all education property owned by the Crown. They:

- manage the existing property portfolio
- upgrade and improve the portfolio
- purchase and construct new property to meet increased demand
- identify and dispose of surplus State school sector property, and
- manage teacher and caretaker housing.

The Ministry is responsible for, and has ownership of, a significant portion of the institutional land and buildings in use by schools, playcentres and kindergartens on behalf of the Government. Property, plant and equipment consist of the following asset classes: land, buildings, office furniture, fittings (leasehold improvements) and equipment, computer hardware and motor vehicles.

School Boards of Trustees are the reporting entity for each school. They are responsible for the maintenance of the school sector property that they use.

As lessor

Ministry of Education - Notional lease of land and buildings to schools

The Ministry of Education, on behalf of the Crown, provides land and buildings to approximated 2,500 schools in New Zealand. The majority of property from which schools operate is managed by the Ministry of Education.

The school's use of land and buildings as occupant is based on a property occupancy document as gazetted by the Ministry. The school's "notional" lease expense is based on an assumed market rental yield on the value of land and buildings as used for rating purposes. This is a non-cash expense that is offset by a non-cash grant received from the Ministry. This is referred to as a "notional lease" as no payment is made by schools to the Ministry.

Accounting

Ministry of Education: no accounting entry is made in the Ministry's financial statements for the agreement to provide the schools the right to occupy and use land and buildings owned by the Crown.

The Ministry of Education records the Crown's school property portfolio as *property, plant and equipment* on their balance sheet. Land is measured at fair value and buildings, including those financed under a service concession arrangement³, are measured at fair

³ The Ministry has entered into three public private partnership (PPP) agreements. These are treated as service concession arrangements and accounted for in accordance with PBE IPSAS 32 – Service Concession Arrangement: Grantor. Under the agreements the partner is required to:

- finance, design and construct the schools, and
- provide the operational services, which comprise building maintenance, landscaping, cleaning and other types of services.

The school boards of trustees remain at all times responsible for the delivery of education to students. The agreements run for a period of 25 years following operational completion, after which responsibility for ongoing

value. All other assets classes are measured at cost, less accumulated depreciation and impairment losses.

Land fair values have been determined from market-based evidence on a highest and best use basis. Land has been valued as if vacant and incorporates the influences of size, contour, quality, location, zoning, designation, and current and potential usage, and an open market 'willing buyer willing seller' scenario. For schools with a designation or other restriction against the land, the values are adjusted accordingly. The land is valued as vacant land

School buildings and site improvements are stated at fair value as determined by an internal valuation process on an annual basis. Fair value is determined using optimised depreciated replacement cost. Optimised depreciated replacement cost is used because of the specialised nature of the assets. An independent registered valuer reviews the valuation for school buildings and site improvements.

Schools: Each school is required to prepare audited financial statements in compliance with NZ GAAP. Schools in their statement of financial performance recognise a non-cash rent expense and a non-cash grant income for the equivalent amount of the expense. The expense is calculated on an assumed market rental yield on the value of land and buildings as used for rating purposes.

Both the Ministry of Education and schools are consolidated in the Financial Statements of the Government on a line by line basis. The notional non-cash rent expense and equivalent non-cash grant income are reversed on consolidation.

Teacher accommodation

The Ministry of Education owns houses and provides accommodation to schools/teachers/care takers in certain communities under a variety of terms and conditions, including discounted rents and in some cases no end term.

A teacher or principal gets a 25% discount off the current market rent for a school house. This is known as a 'service tenancy' and is authorised under [Section 562, Education and Training Act 2020 — NZ Legislation website](#)

Accounting

The Ministry of Education recognise rental income on a straight line basis over the term of the lease in their financial statement of performance.

School as a lessor

The Ministry of Education provide schools with a range of standard agreements depending on the leasing or hiring situation in respect of school premises. Only a Ministry's standard agreement can be used by a school. A school's board of trustees has the right to agree to a request to lease or hire out any school property. There is no automatic right for third parties to occupy schools.

A school can be leased or hired out for a variety of reasons such as:

maintenance will revert to the Ministry along with ownership of the schools. Under the agreements, the Ministry provides the land to the partner to use for the construction and operation of the schools.

- community groups hiring the school hall
- groups wanting to use school property for after-school care or weekend sports
- early childhood education centres leasing an empty classroom
- a swim school leasing the school pool
- the school being used as a polling booth on election day
- Storage for emergency relief equipment and use of schools as civil defence emergency centres

For many of these arrangements, the standard “Casual-use Agreement” is entered into between the school and third party. Casual Use Agreements are for occasional use. For example, the local rugby club uses the school field once a week for practice or someone wants to hire the school hall for an event. For other agreement types that do not meet the criteria for a casual-use agreement, the Ministry of Education will draft a specific license to occupy or a lease agreement.

Dental Clinics at Schools

Government-owned District Health Boards (DHBs) provide oral health services at many schools. A school might have a permanent clinic on the school grounds, one that is built by the DHB, or one that is run by a private contractor.

Any arrangement is covered by a Standard Lease Agreement between the school, the school board of Trustees, and the DHB.

There are two standard agreements:

- the standard lease for a fixed dental clinic and the mobile unit with a permanent site at your school, and
- a Casual Use agreement.

There are different arrangements for dental clinics (or oral health services). Examples of these are:

- fixed dental clinic, either owned by the Ministry of Education or the DHB
- mobile unit with a permanent site at your school
- mobile dental unit with no permanent pad, known as a level one dental unit
- mobile dental unit run by a private contractor.

These are some of the key terms of the standard lease. The DHB is responsible for all costs of the clinic, including:

- maintenance and upgrades
- rates and charges for water, gas, electricity and telephone
- insurance costs
- cleaning
- maintaining the grounds and car parks.

Other information:

- the lease is for 35 years
- the DHB must get the school’s and the Ministry of Education’s consent before doing any building work
- the lease can be ended by the DHB giving 3 months’ notice, or if the school closes but a school cannot evict the DHB
- if the DHB owns the dental clinic and wants to end the lease, the DHB must remove the building or give up its ownership
- if a school shares facilities with the DHB, then the school shares the operating costs.

Agreements for leasing a school's surplus space

If a non-school organisation is using a school's surplus space for a legitimate use, the school needs a lease or licence agreement.

This will cover:

- the areas that the organisation can use
- who pays for operating costs
- how the agreement is ended.

If one school is leasing to another school, for example a satellite unit, the Ministry of Education will organise agreements between the school and the other school's board of Trustees.

Legitimate uses by a non-school organisation include using school property for:

- reading recovery centres and sub-centres
- teen parent units
- Resource Teacher: Learning and Behaviour (RTLB) offices
- an early childhood education centre
- Social Workers in Schools (SWiS) offices
- a refugee centre
- speech clinics
- English for speakers of other languages (ESOL) space
- health teachers' offices
- nurse's rooms
- multi-agency support services (MASSiSS)
- full service offices (for example, SWiS and doctors in the same space)
- model/normal school teacher liaison offices
- specialist school satellite units and kura satellites
- transitional service offices
- truancy service offices.

Accounting

Schools (or the Ministry of Education in certain situations) recognise revenue in respect of these arrangements when earned, or on a straight line basis over the term of the lease.

Inter-government entity transactions (e.g. between schools and DHBs) are eliminated on consolidation in the Financial Statement of the Government (subject to materiality).

As Lessee

While the Government owns the majority of school property, the Ministry of Education leases some school property from private and corporate landowners, local council, other government-owned corporations (e.g. KiwiRail), iwi⁴ and charitable organisations. These leases can vary between formal and informal agreements, and leases payments can range from nil or token amounts through to more commercial lease payments. The leases terms

⁴ The Māori-language word iwi means "people" or "nation", and is often translated as "tribe", or "a confederation of tribes". The word is both singular and plural in the Māori language.

also vary from monthly to 21 years, and many of the lease terms are perpetually renewal by the Ministry as long as the property is needed for educational purposes.

Sale and lease back of land from Treaty settlements under the Ministry's Treaty Settlements Property Redress programme

Through the Ministry's Treaty of Waitangi settlements programme⁵, some Crown owned land that is administered by the Ministry of Education is being made available for commercial and/or cultural redress through the sale and lease-back of some operational school sites (land only).

The majority of school property leases (as lessee) are for Treaty of Waitangi settlement redress over some school land. These leases with iwi are perpetually renewable (although initial terms are commonly set at 21 years), so the Ministry can keep leasing the land for as long as it is needed for education purposes (or any other public work) and only the Ministry can end the lease.

Depending on values and terms of a sale or transfer, and the subsequent rental amount and terms agreed, some of these arrangements may contain concessions.

Accounting

The Ministry of Education de-recognises the land sold or transferred at carrying value and recognises any proceeds received, with the difference between the proceeds and the carrying value recognised as a gain or loss on disposal.

Subsequent leases are treated as operating leases and lease expenses are recognised in the Ministry's financial statements on a straight-line basis over the lease term.

None of the Ministry's leasing arrangements are classified as finance leases.

Concessionary leases for nil or nominal amounts

The Ministry of Education has entered into approximately 30 leases with a nil, nominal or a token payment. Various local governments or 'not for profit' organisations 'lease' their premises to the Ministry of Education to support communities and education services with varied terms. The Ministry does not typically pay any rent for these arrangements or pays only a nominal or token amount.

Accounting

No accounting entry has been made to the financial statements of the Ministry (other than the cash entry if a nominal amount is paid).

⁵ The Treaty settlement process is a staged process of negotiation between the Crown and defined Māori communities which is aimed at agreeing redress packages that will settle historical claims of breaches of Te Tiriti o Waitangi. The Treaty settlements aim to resolve these claims, and provide some measure of redress to the descendants and claimant groups. When a Treaty settlement bill is passed through Parliament, it becomes law.

Annex Four

New Zealand's conservation estate - Department of Conservation

As lessor

If a third party is carrying on a business or commercial activity and wants access to the Crown's conservation property (short term or long term), the third party must get permission from the Department of Conservation (DoC) in the form of a concession. A concession is a contract or binding arrangement between the Minister of Conservation and the third party.

A copy of the standard concession contract (Lease and Licence agreement) between the Minister of Conservation and the Concessionaire who wishes to carry out the concession activity on conservation land can be seen here: [Concessions Contract - Lease and Licence Agreement \(doc.govt.nz\)](#)

DOC list numerous activities for which a concession is required here: [Running your business or activity on DOC land: Apply for permits](#). Some of the more lease-like examples are listed below:

Access/Easements - To obtain access across public conservation land for a business or private property. This is known as an easement and includes activities such as conveying electricity, telecommunications, water and gas or right of way for vehicles or stock.

Private or commercial structures - This includes building an information centre, erecting a weather station or constructing or leasing a private or commercial campground.

Tenancing or using existing structures - This includes the permanent use of a government-owned historic building for a business or community group.

Grazing - to graze any animal on public conservation land a concession from DOC is required.

Beekeeping on public conservation land – concession to place beehives on conservation property

DoC charges generally at least three fees for each concession; an annual management fee, a monitoring fee (depending on the activity) and an activity fee (which can be based on a % of the concessionaire's revenue) [Ongoing concession fees: Apply for permits \(doc.govt.nz\)](#)

Fees are reviewed every three years.

Annual management fee – covers the time required by DOC to manage a concession. It is likely to be between \$150 plus GST and \$500 plus GST depending on the level of ongoing management a concession requires. This includes collecting activity fees, invoicing for rates and administering rent reviews.

Monitoring fee - If DOC is required to monitor the effects of an activity on the conservation estate, they will charge a monitoring fee to recover their costs. The fee will depend on what the activity is and how much work is required by DOC staff.

Activity fees – there are minimum fees that apply to each concession. Occasionally the fees will vary depending on the circumstances of the activity. If the activity fees for a concession is not covered in the website, the fee will be based on a percentage of the business revenue – refer [How we calculate a percentage of revenue activity fee](#)

For example, to host beehives on public conservation land there is a base rental fee of \$30 + GST per hive, per annum.

Hives where there is Manuka honey production attract a \$75 + GST per hive fee per annum.

Alternatively the operator may choose to pay \$10 + GST per hive, per annum plus 10% of the annual revenue from those hives (if DOC is able to remotely monitor hive production).

Accounting

In the Government's balance sheet, conservation land is initially recognised at cost and is revalued annually based on rateable valuations provided by Quotable Value Limited. Individual land lots are only updated every 3 years by Quotable Value Limited using a mass appraisal process. Land not matched to an assessment is valued using an average per hectare rate. An independent registered valuer provides certification that the assigned values for land are appropriate and represent fair value

The Department collects revenue on behalf of the Crown from concession fees, rent/leases and licences from commercial users of Crown-owned land. Revenue is recognised when earned, reported in the financial period to which it relates and is treated as exchange transactions.

